

Economics in Action . July 1954

July is the month when Americans by the thousands leave their troubles and newspapers behind them and flock to beaches, picnic grounds and resorts, far away (they hope) from the workaday world of business. Fortunately for us, our economy is never on a holiday. In fact, recent spurts in economic activity, while by no means spectacular, have encouraged even some of our more gloomy economists, although they are quick to point out that we must do even better:

The downtrend in industrial production, which began last August, has finally been halted at 123% (allowing for seasonal adjustments) of the 1947-49 average and will probably remain around there for most of the summer months. That makes for a 10% drop from last July's high, but it is considerably better than the 15% drop predicted by the nation's economists last January. On the other hand, the usual summer slowdown in steel and automobile production, although not expected to be greater than seasonal, will make job-hunting more difficult.

Employment was up and unemployment was down in May for the second straight month, but June will probably tell a somewhat different tale. Although total employment is expected to keep on increasing (particularly in farm work), unemployment is also expected to increase. The critical month will be September when factories should return to normal schedules and when many of the youngsters are back in school.

Betting odds right now are for a definite upswing that will begin to make itself felt by late fall.

The big economic mystery, now that the "readjustment" seems to be just about over, is the way prices re-

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mained firm in spite of top-heavy inventories and buyer resistance. For, in terms of prices, we are still living in an era of inflation:

The Government's index of wholesale commodity prices, which is published by the Bureau of Labor Statistics, hasn't budged much from its all-time peak of 116.5 (1947-1949=100) in mid-1951. By late 1952 it was down to 110, and it has remained around there ever since. Recently, the index has even gone up, partly in response to increased buying of strategic commodities to cope with a possible emergency in Indochina.

Consumer prices, as reflected in the Government's Cost of Living Index, which includes food, clothing, housing, transportation and other basic expenses, have also shown remarkable stability. Since January, consumer prices have fallen by an average of less than 2/10 of 1% a month, which most economists think is very little considering the decline in sales this spring. Excise tax cuts in April, moreover, probably account for much of even this limited decline in the late spring.

There are several possible explanations for this remarkable price stability, although none of them are altogether satisfactory. For one thing, Government price indices don't include discounts or trade-in allowances on such items as autos and appliances, which means that official figures for these items tend to be a little high. Price-propping policies are another artificial factor keeping farm prices high. Most important of all, businessmen have retained unusually heavy inventories in the hope that the business dip would soon level out. Even so, this is one of the few

(Cont'd on p.47)

Challenge

The Magazine of Economic Affairs

Vol. 2 No. 10
July 1954

Published by
INSTITUTE OF ECONOMIC AFFAIRS
NEW YORK UNIVERSITY

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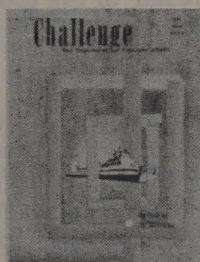
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a personal note

PHILADELPHIA, JULY 4, 1776—"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain inalienable Rights, that among these are Life, Liberty and the pursuit of Happiness."

These are the most familiar words from the most important historical document of the United States of America. The Declaration of Independence, whose 178th anniversary we celebrate this month, constitutes a general statement of the fundamental American idea of government. Every schoolboy and girl in the land is, at least to some extent, familiar with the implications of this Declaration. We need not repeat here that which is often repeated, or indulge in interpretive exercises which complicate that which is plain and explicit.

What interests me today is that the Communists have used, and are using, similar words to woo adherence to the grotesqueries of their own political-ideological machine. Time and time again they attempt to twist our stated beliefs into a calculated indictment of our practices. And while we need not fear that we do not have the power of our own convictions, we cannot restate too often, for all to hear, the *results*—not merely the meaning—of the words quoted above.

Unfortunately, the meaning of words can be distorted to appear to say anything one desires, even something quite the opposite of what was originally intended. It is not surprising, therefore, that many of the slogans of communism sound somewhat similar to the pronouncements and declarations which have rallied people in the past, including Americans.

FOR EXAMPLE, although there is no room in Communist dogma for a Creator who endows us with certain inalienable rights, Communist ideology accommodates the concept of fighting for rights which have been withheld by "plutocratic masters." Nor do the Communists deny that among the rights of man are life, liberty and the pursuit of happiness. Indeed, they go us one better and guarantee that everyone shall have happiness. As to liberty, the Kremlin gang is for liberty, although they are somewhat fuzzy about whose liberty they are for. But it is a big word—liberty—and both East and West use it freely to score a point whenever an opening appears in the contest for men's minds.

Thus, wherever men read, listen and think, the Communists are ready to bandy about the same words that have stirred Americans since July 4, 1776. Yet, how different are the ends! To be sure, there is one American ideal, one set of American words, whose purpose is so lofty and the results derived therefrom so incontrovertible that it cannot be debauched and twisted to the advantage of the Communists. I refer you to the phrase "all men are created equal."

Curiously enough, it so happens that the call to equality is the first slogan the Communists try to use to win people to their cause. In the colonial areas of the world, equality means "throw out your imperial oppressors." In countries where stark poverty and inordinate luxury stand side by side, equality means "strip your economic masters of their riches and turn this wealth to the good of the masses." Highly attractive appeals, these, yet the idea that all men are created equal is the most difficult for the Communists to handle. The reason for this is to be found in the fact that thus far the United States seems to have a monopoly in practicing equality.

THE UNITED STATES has been designated as the archenemy of communism. It is capitalistic; it believes in private enterprise and individual expression, and in practice this has resulted in an equality among men which the Communists can neither degrade nor distort. Indeed, there are still some chinks in this armor of ours, but not very large ones.

What counts is that in the United States the few do not eat while the many starve; the few do not lounge while the many slave; the few do not rule while the many are ruled; the few do not drive limousines while the many walk. And while in this land some men are born tall and others short, some are brilliant and others dull, some industrious and others lethargic, each man feels equal to the other and can make of himself whatever his natural equipment and circumstances allow.

These are the things the Communists cannot offer. Next to the kind of equality which has been achieved as a result of the American Declaration in practice, the unfulfilled promises of the Communists remain empty slogans. Wherever they have gone, whatever nation they have conquered, the Communists have brought neither equality nor constructive achievement. Both the American and the Communist slogans have been around long enough for people everywhere to compare results. In the long run, in this practical world, results, not slogans, will count.—H.B.

As the nation's new fiscal year opens, economic and defense problems present stern tests for the Administration's spending policy

QUESTIONS BEHIND BALANCING THE BUDGET

WHEN THE Federal Government made its recent announcement that it was offering for sale vast quantities of used stamps clipped from incoming mail, many private dealers around the country sent up a howl. One dealer, however, perhaps with some sarcasm, let it be known that he did not object. He was, he said, in favor of any measure that would help to balance the Federal budget.

This particular dealer must have been a man who rarely lifted his head from his gaudy little talismans. For even before the Indo-chinese situation spilled across the front pages, the Administration had announced that in the fiscal year of July 1954—June 1955, outgo would exceed intake by about \$3,000,000,000. The reason given was the desirability of effecting some tax reductions to go hand in hand with the cuts in expenditures that could be made. Now, as the new fiscal year begins, there is much doubt whether the deficit will stay within the limit forecast.

Nevertheless, the issue of bal-

ancing the budget remains a part of the new program. In keeping with the predilections of those in office, it has been taken into account on every item, from paper clips to bulldozers. If the budget cannot be balanced now, the aim is to balance it in the near future.

From each fiscal year to the next, many sources of funds, as well as commitments of the Federal budget overlap. With the Bureau of the Budget already at work on the schedule for 1955-56, the official hope is to make that fiscal period the "year of balance." This hope and intention will act (barring, as usual, the possibility of all-out war) as a brake upon almost every important phase of Federal spending throughout the present, new fiscal year.

Thus the Administration is following through on the first budget entirely of its own making. With the significance that Federal spending has come to gain in our economy, the repercussions of the new policy will be wide.

The present, though tentative, new budget calls for an outlay of

about \$70,000,000,000—somewhat more than \$430 per citizen. Give or take a few billion, this represents about 18 percent of all the spending the nation will do. This proportion is only slightly less than the average of the last few years. But it falls considerably short of the record of 42 percent share of total spending carried out by the Government in 1944.

This 18 percent of all spending is, however, a decisive proportion—and not so merely because of bulk impact.

Throughout the entire interaction of financing, producing, distributing and consuming in this country, Federal spending has been and is *the greatest concentration of economic activity*—under the direct and continuing control of a single unit. This does not take into consideration the powers of the Federal Government in determining money supply and the use of credit, or in regulating many of the operations of private business.

It is the opinion of many economists that Federal spending is today the dominating economic entity in our lives. This means a pressing responsibility has been put upon the Chief Executive and his top officials, additional to those designated by the Constitution.

Whatever the Administration does or does not do with Federal funds, it will affect the economy,

or groups within it, beneficially or adversely. It must make every move with all such possibilities thought out beforehand. The same goes for what it does to raise money, by taxation and by borrowing.

The conditions fostering the growth of Federal spending to its present proportions throughout the last two decades have been: first, those of depression; and, then, of war. It is the existence of somewhat comparable circumstances which today test this Administration's adroitness in carrying out its fiscal policies. It must find a variety of ways to affect these policies.

Currently we find economic conditions shifting, from conditions of readjustment to what appears to be an early stage of a new growth-spurt. Unemployment hangs on. But meanwhile the order departments of industry are sharpening their pencils.

LAST YEAR, when the new Administration drained billions from expenditures for defense, the results in production cutbacks and layoffs by heavy industries were not long in coming. While business and consumer spending stepped in to inject enough new dollars into circulation to compensate, the change in pace did manage to provoke a mild, cramping seizure in parts of the economy.

Today the long-lamented pile-up of inventories has just about been cleared out. Consumers have sustained a quest for new housing that has amazed everyone and is now stimulating wide activity in related fields. Business plans are waxing in anticipation of "good times" and of Governmental reaction to the danger in Southeast Asia.

On the strength of signs today, the Administration would seem to have gotten past the worst of what some choose to call a "recession" without having had to cut open the mattress for large-scale public works and other programs to boost employment and purchasing power. Whether the unemployment that has struck an additional 2,000,000 or so families in the past eight months will prove a fatal political liability is another question.

During the recent and still tangible period of economic seizure, the Administration has chosen to combat indirectly the "period of readjustment," through monetary policy. The Treasury Department has encouraged the Federal Reserve System to switch from a *hard* to a *soft* money policy, by releasing new billions of dollars in credit to its member banks throughout the country and by lowering requirements for the proportion of liquid reserves they must hold on hand to back up

their loans. And in its recent issues of notes to obtain loans from corporations, trusts and other big investor groups, the Treasury has purposely offered to pay only very low interest rates. Actually, the Treasury has tried to turn away many lenders, hoping to steer their money into private, productive ventures that would create jobs in the non-Government sphere of the economy.

THIS indirect approach, through monetary policy, has taken an uncomfortably long time to show results. To give it a specific share of the credit for spurring economic activity to date would not be possible, though no doubt it has helped, particularly in expediting credit for new housing.

Having won over many voters with campaign pledges to balance the budget, President Eisenhower and his financial chiefs have cleaved to the principle with single-minded devotion. They will not readily shake up their plans for 1954-55. If the anticipated budget is to be changed, it will probably be the rising pressure of defense requirements in Southeast Asia that will do it. Whatever happens in this way will have much to do not only with our national security but also with our economic future.

When President Eisenhower laid his 1954-55 budget before

Congress last January, he said:

"The previous history of our military budgets has been one of feast or famine, depending upon the state of world affairs. In peacetime, appropriations have customarily been much reduced. In wartime, financial considerations have been largely ignored. Our present budgetary plans represent a departure from these practices. They provide for the continued maintenance of a strong military force which is within the financial capability of a sound economy. We cannot afford to build military strength by sacrificing economic strength."

On this basis, defense spending plans were presented which absorbed 68 percent of the budget. They included provisions for all military purposes, for aid to allies under the Mutual Military Program, for development of atomic energy and for stockpiling of strategic materials.

With the falling-off of tax revenues (of the planned, as well as of the unexpected variety), the Administration has since sliced nearly \$500,000,000 from defense spending plans in order to hold the deficit as low as possible. But while this has been going on, the alarms from Indochina and neighboring territories have been getting louder and louder. President Eisenhower has been reported holding urgent conferences

from which an upward revision of outlays for arms should be expected, while suppliers of materials not already heavily stockpiled have been preparing pragmatically for just such a possibility.

Confusion persists, however. Within the last few weeks Secretary of the Treasury Humphrey made known that still further cuts for spending in fiscal 1955 were in the offing; but he did not disclose the amount of defense money involved.

Some believe this attitude is bound to give way eventually because the Soviet Union is continuing to gain on this country in preparedness, and an increasing number of political and military spokesmen are impressing this fact upon the public.

Criticism of the Administration's apparently persistent adherence to rigid economy is based upon either military or economic considerations. The arguments over weapons, manpower and deployment go on as the facts are evaluated by the experts of various service backgrounds. The facts vary as discussion shifts from one locale to another. The arguments over economic policy, however, while concerned more with abstractions, may be traced out with comparative facility because they tend to polarize around opposing expressions of simple faith.

Those who take issue with the

Administration's insistence on balancing the budget consider that to apply a commercial balance sheet to the financial workings of the Federal Government is a book-keeper's idiosyncrasy with no grounding in reality

This opposing group places its faith in the growth of production. They say that as long as the nation continues to step up its output by volume, upon which the value of money must be based, the national debt will be controlled firmly and will perform a service in providing a means for investment by security-minded organizations and people, including, especially, families of modest means. They foresee no difficulty in meeting interest payments as they become due on issues of notes and bonds, unless the country should undergo spasms of contraction that would jeopardize its very existence as a political entity, anyway.

Budget balancers, in contrast, act out of the conviction that no economic enterprise, much less a huge and complex institution such as the Federal Government, can hope to stay on an even keel without scrupulous counterweighting of resources and needs, measured as of now. In confronting critics they stress the danger of inflation inherent in deficit financing, and cite numerous examples of governments that have foundered on

seas of devalued currency because they failed to balance their books. For them, the passing on of an expanding national debt to future generations is destructive irresponsibility. They consider balancing the budget a moral obligation.

IT IS unfortunate that the future offers sure promise to neither side of a fair trial of uninterrupted "pure" conditions. Continuation of the cold war probably will shove doctrinal precepts aside, as it seems to be doing today, and will put a premium on foresight and long-term planning to establish the most desirable worldwide economic conditions. And it will demand alertness and agility in meeting unforeseen situations as they arise.

Lack of opportunity to press either set of beliefs to the utmost need not be disheartening. There is, in any case, much room for study. The years ahead offer some hope for experiment. And they throw open vast opportunity for raising our standard of living without imperiling stability, by anybody's definition. To follow up this opportunity is the one sound economic strategy by which we shall flourish and win friends in the broader contest of ideologies. This seems to be about the way the present Administration sees the job of balancing the budget. ■

Big Push on The Waterways



After 100 years of falling out-of-date, the inland canals and rivers have been revived as bustling avenues of transportation

A PRESENT-DAY Huck Finn, drifting down the Mississippi, would have to paddle his raft out of the way of barge tows longer than the largest ocean liner. And though something has been lost by the disappearance of the riverboat gambler and the side-wheeler, the Mississippi is far busier today than in Mark Twain's time. Over the last twenty-five years, the rivers and canals that make up our highly interlocked system of inland waterways have quietly been carrying an ever greater tonnage of the nation's freight.

Now that the United States will join Canada in constructing the St. Lawrence Seaway, attention is focused as it has not been for many years on the crucial importance and great potentialities of water transport in the country's shifting patterns of commerce and industrial development.

This country already has the world's largest, and probably its busiest, system of inland waterways—over 28,000 miles (exclusive of the Great Lakes) of navigable rivers, canals and channels. Development of the system is a continuous job of deepening channels, enlarging locks and dams, and expanding terminal and barge-landing facilities.

The Mississippi is now improved for 1,839 miles. The Atlantic intracoastal waterway runs for 1,169 miles from Massachusetts to Florida, broken by several stretches of open water; and the Gulf intracoastal channel extends for an unbroken 1,116 miles from the west coast of Florida to the Mexican border. Forty-six dams on the Ohio restrain the river into "ponds" of two to 80 miles in length, giving it a navigable depth of nine feet for 981 miles

from Pittsburgh to Cairo, Illinois. The Great Lakes and the Mississippi are connected by the Illinois waterway, 350 miles long. Waterways thus extend through a good part of the eastern United States, a network thrown over the most important industrial areas.

THE BIG PUSH on the rivers and canals is handled by more than 4,300 towboats and close to 15,000 barges and scows. Some 800 newly launched vessels were added to the fleet last year, which in all carried an estimated 368,000,000 tons of cargo.

In recent years, freight business on the nation's waterways has been increasing 10 to 15 percent a year; in 1953 this amounted to 6 percent of the total ton-mileage. (The railroads' share was 55 percent, and the rest was divided between trucks, oil pipelines and ships on the Great Lakes.) On the Mississippi alone, traffic rose from 36,000,000 tons in 1942 to about 100,000,000 tons in 1953.

Speed is not the strong point of a towboat and its barge-train, though in some cases, where railroads must transship and shunt freight cars aside, the barge can actually make a better showing. The clinching argument in favor of water transport is cost: to move a ton of wheat from Minneapolis to Knoxville costs \$17.69 by rail, but the charge is only \$5.55

by barge. Such a rate differential is quite typical, and the railroads are finding the competition stiff.

THE HUM of commercial and industrial activity along the waterways is a relatively recent phenomenon, at least on the present scale. The upswing around 1930 was a continuation of a revival that began in World War I, when the railroads became badly snarled, and the lack of transportation almost strangled the country's war effort. Before that, the inland waterways had known a long succession of sleepy days, their splendid era having faded after the middle of the nineteenth century.

In the early nineteenth century, the river boat and barge began to supersede the wagon as the biggest hauler of goods. Traffic on turnpikes declined, and many regions were feverishly engaged in building canals. Especially after the completion of the Erie Canal in 1825, they captured public imagination and seemed the most promising routes of commerce. But even before canals were able to return the money invested in them, they were eclipsed by the railroad. The canal boat almost joined the stagecoach in oblivion. The Mississippi managed to retain its importance as a thoroughfare until railroads had crisscrossed the continent. It ceased

to be of much commercial importance after the Civil War.

The economic renaissance of the inland waterways thus harks back to the early 1800s, when the unleashed energies of the American people led them westward in ever greater numbers.

IN THE fall of 1815, the Rev. Timothy Flint and his family, having left their New England home, found themselves in Pittsburgh, at the beginning of what was to be a ten-year period of roaming throughout the Mississippi Valley. Pittsburgh, according to Flint, had even then a "sooty and funereal aspect." He observed (in 1825) that despite its manufacturing industries, Pittsburgh's "wealth, business and glory . . . are fast passing away, transferred to Cincinnati, to Louisville and other places on the Ohio," especially because of the "multiplication of steamboats, and the consequent facility of communication with the Atlantic ports by the Mississippi."

Flint guessed wrong about Pittsburgh, but his remark suggests what was expected of better water transport and to what a great degree the frontier was then in violent flux.

Along the river, Flint particularly noticed "the singular, whimsical and amusing spectacle of the variety of water-craft": stately

barges, as large as Atlantic schooners; "slender and elegant" keelboats, which could carry 15 to 30 tons; Kentucky flats or "broad-horns," 15 feet wide and from 40 to 100 feet long, capable of carrying 20 to 70 tons; "covered-sleds" or ferry-flats; pirogues, skiffs, dugouts, canoes. "You can scarcely imagine an abstract form in which a boat can be built, that in some part of the Ohio or Mississippi you will not see, actually in motion."

Their cargoes were chiefly consumer goods, familiar products of agriculture and small industry: corn, barrels of apples and potatoes, cider, whiskey, planks, salt, flour, pork, hemp, tobacco bagging, "Yankee notions," cotton, cattle and horses, lead, skins and hides.

Today, raw materials, commodities and semi-finished products make up the principal cargoes: crude petroleum, fuel oil and gasoline, corn and wheat, sand and gravel, coal, primary steel products, dry chemicals, pulpwood, sulphuric acid, paper, cement, aluminum, automobiles. The waterways are thus tied directly to mass production and basic industry.

PROGRESS in water transport has brought triple-screw diesel towboats that develop 5,200 horsepower, are equipped with ship-to-shore radiotelephone and radar

gear, and can push up to thirty barges and 30,000 tons of cargo—the equivalent of 600 freight cars. The modern towboat pushes its barge tow, and in the tricky currents of the Mississippi it must often shepherd them one by one around a sharp and dangerous bend.

The majority of the newer barges can carry from 1,000 to 3,000 tons, while their variety is almost as great as in Flint's day: open-hopper barges for coal and ore, deep-draft barges for work in harbors, covered-hopper barges for grain and other dry cargo, flat-deck barges for automobiles and machinery. Petroleum and liquid chemicals are moved in tank barges or "thermos-jug" barges—essentially a steel box containing four or more giant cylinders.

Of all the new craft on the inland waterways, the integrated tow is probably the most remarkable. A towboat, eight or ten barges, and a spoon-shaped bow section are fitted together into one streamlined unit that may reach 1,200 feet in length—nearly a quarter of a mile, and longer than the 1,031-foot *Queen Elizabeth*. Such a unit can maintain a steady ten-mile-an-hour pace.

OIL, chemical and coal companies are among the largest owners of barges and towboats, since all are large shippers of bulk materials.

Besides the big private fleets, many companies, some with only a few vessels, are exclusively in the freight business. According to a Government survey made three years ago, 79 percent of 9,000 vessels operating on the Mississippi and Gulf intracoastal systems were private carriers. Freight companies under contract to one or more firms owned 3.4 percent of the vessels, and 17.6 percent were common carriers who accept cargoes from anyone. Many private carriers, however, also do contract work when not engaged in hauling their own companies' raw materials and products. In 1953, there were 850 owners of vessels on these two waterways, against 780 in 1950.

AS INDUSTRIAL plants, warehouses, grain elevators and electric generating plants continue to rise along rivers and canals, the inland fleet will become more vital. In the first three months of 1954, eighty-five waterside development projects—some running into millions, and all over \$100,000—were announced. Along the Ohio and its tributaries, new plant investment of \$3,000,000,000 has been made or projected in the last two years. With improved locks and dams, larger and heavier barge tows will be possible.

The big push on the waterways is sure to get bigger. ■

*The average man, overwhelmed by "economic jibberish,"
will find little solace in seeking dictionary
definitions for words he does not understand*

MEANINGFUL ECONOMICS

by Harold S. Sloan

MUCH HAS BEEN SAID about economic jargon — words and phrases that seem to please the experts, but certainly bewilder the public. Economists are told to use good, plain, Anglo-Saxon words if they would make themselves understood and lessen economic illiteracy. As a friend of mine once put it: "I don't intend to read with an economics book in one hand and a dictionary in the other."

That is understandable. But when I asked my friend if he had ever tried that procedure, he declared that he had not, and did not intend to do so. That was disappointing, because I am sure that, even if he had overcome the physical problem, definitions would have helped him but little. Something more than a mere change in vocabulary is necessary to make economics meaningful.

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Try this experiment. Select a short paragraph that you have read many times without understanding it. Then, underline every word whose meaning you do not know. Consult a dictionary and rewrite the paragraph, substituting the dictionary definition for each word not understood. Now read what you have written. The odds are 99 to 1 that the fog is as thick as ever! For example:

Discounts and open market operations by the Federal Reserve banks . . . result in changes in the volume of member bank reserves.

Perhaps you understand all about credit and banking. If so, the words in italics are familiar, and the quotation has meaning. But suppose that you do not know those things and are struggling to learn about them. In that case the quotation will, I believe, do little more than create confusion.

Substituting dictionary definitions for the words in italics, we come up with something like this:

Loans secured by certain promissory notes, and the buying and selling of Government bonds by the Federal Reserve banks . . . result in changes in the amount of money that member banks hold on deposit with the Federal Reserve banks.

Is this any better? Probably not, but don't blame economic jargon. There's none here. You need only know what a bank is, a promissory note, a bond, money and a deposit. The trouble is that *the mere elimination of technical words (economic jargon) does not necessarily make economics meaningful.*

Then what (if anything) does? Try this paragraph taken from an article written for professional economists:

"In which way does the individual consumer think his way through the problem of allocating his income? Does he think in terms of relative importance of a small increment in his rate of consumption of one commodity *vs.* that of another? Or does he think in terms of an estimated quantity of satisfaction to be expected from a small increment in his rate of consumption of a particular commodity?"—*"Value and Distribution"* by Bernard F. Haley

Did you have to read it twice? And this:

Think of yourself shopping. When you are making up your mind to buy something, say a radio, do you think how much

more pleasure, over a period of time, that particular article will give you than some other article, say a phonograph? Or do you just think of the pleasure that the particular article, in this case the radio, will give you during the weeks to come?

Surely there can be no question as to which is the easier reading. But why? Both convey the same meaning; there are no technical terms in either; each contains exactly the same number of words; and each has the same average word length. Of course you can dismiss the whole matter by declaring that there is nothing to it—just use simpler language. But what, exactly, makes language simple? Indeed, if we ascertain this, we shall know more about making economics meaningful.

I SUGGEST that the answer is to be found in *levels of abstraction*. Abstracting is a process whereby we become progressively less concerned with a specific observation in the world about us, and more concerned with other things or ideas more or less directly related to that observation.

For example, the following levels of abstraction refer to our monetary system. The list begins with a low level and progresses to higher ones: (1) gold and silver, (2) coins, (3) money, and (4) credit.

Item 1 is the most specific one

in the list. You can describe how the metals look to the naked eye, subject them to microscopic tests, analyze them chemically, and expound upon their atomic structure. But they remain two metals.

With Item 2, the metals as such become less important. Coins introduce the idea of a medium of exchange, which calls for explanation.

In considering Item 3 (money), we need to analyze Items 1 and 2 less precisely. There are new issues that demand attention: the concept of paper money, its authorization and control by government, the various denominations, etc. Here we learn the significance of money through its development from metals and coins.

Finally Item 4 brings us to a level of abstraction where the first three points form only the framework for a concept. Credit, we recognize, has its bases in a monetary system backed by metal; but we are more concerned with the bankbooks, promissory notes, bonds and bank deposits which are the tools of this new trade.

Keeping this in mind, let's see what was done with the paragraph about the consumer, quoted above. Here are the changes made: "Individual consumer," which includes you and everybody else, was changed to *yourself*. "Allocating income" may mean budgeting, counting money in-

come, planning a trip; but here, more specifically, it means *buying something*. "Relative importance," which evaluates various activities like eating or fasting, walking or riding, working or loafing, became *more pleasure from one article than another*, which defines our goal as maximum enjoyment. And a "particular commodity" is transformed into the real shape of a *radio*. Note that in every transaction the level of abstraction was stepped down.

But why did the dictionary definitions substituted for the economic jargon describing bank operations fail to simplify the discussion, while changing levels of abstraction in the piece about the consumer seemed to put across the meaning readily?

A lexicographer is essentially an historian. He tries to find all the ways in which a word is used by experts. Before he finishes, his record may disclose diverse usages, but he cannot find space in the dictionary to print every example. He must abstract, making a few words cover a lot of ground. *Definitions, then, do not lower the level of abstraction; they are on as high a level as the words they define.* They explain by substituting one abstraction for another; but they do not simplify.

This does not mean, however, that in order to be meaningful economic writing must be on a

continuous low level of abstraction. Indeed, that would reduce it to the "I said, then he said" sort of discourse that characterizes beauty parlor conversation. Furthermore, it would prohibit any worth-while discussion of our economic order. How, for example, could we talk about credit, which, as stated, means much more than money, coins and metal? We need this symbol and countless others to express our thoughts about the world around us. That is the reason for the technical terms of economic jargon. However confusing they may be to the uninitiated, these terms bring together a complex of related ideas on economic life, and hence facilitate discussion. Abstraction is essential to knowledge.

Nevertheless, we need not remain at this peak permanently. Just as low levels inhibit thought, so high levels induce vagueness. What we need to make economics meaningful is the combination of various levels of abstraction. Here is a rather good example taken from *Supply and Demand* by H. D. Henderson:

"There is one such truth in the economic sphere which is essential to appreciate vividly and fully. . . . Man lives by cooperating with his fellow men. . . . The humblest inhabitant of Great Britain or the United States depends for the satisfaction of his simplest needs upon

the activities of innumerable people in every walk of life and in every corner of the globe. The ordinary commodities which appear upon his dinner table represent the final product of the labours of a medley of merchants, farmers, seamen, engineers, workers of almost every craft. . . ."

NOTE the first level in the broad scope of the term "cooperation." In order to make us *see* clearly what he has in mind, he adds detail. Moving to a lower level of abstraction, he uses terms like "simplest needs" and "innumerable people" which fix the factors of cooperation, but do not define it. Finally, the author reduces simplest needs to "commodities on the dinner table"; innumerable people become the "merchants, farmers, seamen, . . ." Now there is little room for misunderstanding.

Through these examples then, we can see how to make economics meaningful. The answer is not in substitute definitions which are themselves abstract, nor in speaking chit-chat, nor in dispelling our vast economic jargon. In order to make economics meaningful we must *vary the levels of abstraction, always proceeding from the higher levels to the lower ones.* In this way, we will make ourselves understood—and make our point. ■

So much has been said about avoiding a depression by "spending more" that we have hardly examined the monetary control tools which can effect such spending

TO INCREASE SPENDING—

by Norman Lombard

LAST SPRING there was so much talk about a depression that everyone began to cook up remedies to get America out of its supposed economic troubles. Some of our friends abroad again tried to sell us on the Keynesian philosophy that the way to prosperity is to borrow and spend.

Colin Clark, the transplanted Australian economist of Oxford, held a thousand New York businessmen spellbound while he told them that the United States Government should run a huge deficit in order to prevent the depression that he otherwise foresaw.

Nearly everyone who makes any pretension to being an economist admits that a decrease in the totality of spending (purchasing and investing) causes, incites or characterizes all recessions and depressions. Obviously, then, if

decreased spending starts and continues during a depression, the thing to do in order to get out of that depression is to increase spending. That is just common sense. It is also sound economics. But how can this increased spending be accomplished?

Here is where the real argument starts. Some say public works; others say reduce taxes, increase wages, or devalue the dollar. Clark's prescription is: Have the Government run a deficit, and spend; spend on anything so long as the money that goes out is more than the Government takes in.

It sounds simple. It is as simple as saying that the sun moves around the earth; and it is just as wrong.

If the Government spends, it has to have money just as you and I do. Where will the Government get the money? The usual dodge is that the Government can borrow the money. But from whom? Well, more Government

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bonds will have to be issued.

Suppose you should buy one of those bonds to help the Government finance its deficit. You would then have just that much less money to spend. There would be no increase in the totality of spending.

The same thing would be true if the Government went in for public works. It would have to borrow the money to finance such a program. The people who bought the bonds would have just that much less to spend. So there would be no increase.

The same analysis applied in reverse shows us that reducing taxes will not increase spending. The taxpayer would have more money to spend; but the Government would have less. No increase in the totality of spending!

Now, if borrowing from the public will not increase spending, why shouldn't the Government borrow from banks? That will do it. When the Government sells a bond to a bank, the bank sets up a credit on its books for the amount. Then the Government spends the credit. That is a real increase in spending. That looks like the solution. Let the Government borrow from the banks and spend. It appears as though the advocates of the borrow-and-spend philosophy might be right after all!

What I should like humbly to

suggest, however, is that the identical result can be achieved by another means—without the Government borrowing a single cent to do it!

The Federal Reserve banks (there are twelve of these bankers' banks) could go into the open market and buy up some Government bonds from the public—from individuals or from bond-holding institutions. These would be old bonds—not newly issued ones—some of which you might own and would be glad to sell if the price offered were high enough. The spending power created by the purchase of such bonds would appreciably increase the totality of spending because there would be more cash to spend.

The Government doesn't have to run a deficit, set the unemployed to raking leaves or issue any new bonds.

This open market operation is not well understood by the public. But it isn't a new idea to people who work in this field. There is a Federal Open Market Committee set up by Act of Congress in the Federal Reserve System to supervise such operations. It has been in existence for years.

The details of this open market device are a bit complicated, but the essence of it can be simplified.

BEFORE we go into this, however, I want to state at the outset that

there are no simple panaceas for all economic ills; there is no single practice or process which can keep us all economically healthy. But since the control of our money and bank credit supply is an important factor in the problem of preventing booms and depressions, it seems to me that one of the more important tools which the Federal Reserve banks might employ to achieve a healthful flow of money should be understood by the public—and should not be underemphasized by economists.

The primary monetary objective should be to keep the totality of spending in balance with the production of goods and services—thereby achieving stability in the purchasing power of the monetary unit. A secondary objective might well be to develop an instrument by which this balance could be automatically redressed whenever it goes askew. This is a task that calls for a high degree of economic statesmanship and a mental attitude that would be willing to question every dogma in the philosophy of monetary and credit-mechanisms management.

The open market device is a step in the right direction toward achieving, in monetary matters, the type of stability we need in order to keep us from falling into a period of decreased spending.

Here is how it works. When a Federal Reserve bank buys a Government bond from someone—maybe from yourself—the seller gets a piece of paper calling for “X” dollars of spending power in exchange for an inert interest-bearing Government bond. The seller can take that piece of paper to his bank and get the cash; or he can deposit it to his credit in his own bank. Then he will have at his disposal “X” dollars. He can spend that money or invest it as he sees fit. Or he can leave it in the bank, which will have that much more money to invest.

IF THE Federal Reserve banks do enough of that open market bond buying, they can help to offset any tendency toward decreased spending, however caused. Of course, if they do too much of it, they can cause a boom and bring on inflation. It is a question of just doing enough of the right thing at the right time.

In this bond buying process, the Government as such does not enter into the picture at all. The Federal Reserve banks are not Government banks; they are privately owned. The bonds they buy are purchased from the public, and the public gets the money when the deal is made. The money promptly flows into the commercial banks.

The man who sells his bond de-

cides where he will spend or invest the money. If he invests it, he picks out a place where there is a real economic need (where the demand is greatest), as indicated by the rate of interest or other inducement offered to him to part with his money.

BUT WHAT if the money that flows into the commercial banks stays there? It is contended by some that since borrowers are few and far between in times of depression, the banks cannot loan the money or otherwise put it to work. So the money stagnates. It is contended that people cannot be forced to borrow from a bank, nor can banks be forced to loan. The popular way of putting this is "you cannot make a horse run faster by pushing on the reins," or "you cannot push on a string."

I have heard this for twenty years, and it just isn't true. Banks can and always will find ways to loan or invest money—especially if they know there is going to be more of it forced on them.

Now, if everyone knew that the Federal Reserve banks were going to use this effective open market device to increase spending, businessmen would help the process as a matter of self-interest. If you were in business and had been holding off from increasing your inventory with the thought that prices were going down and you

could buy cheaper if you waited a while; and if you read that the Federal Reserve banks were going to buy bonds to make more money available for spending, you would borrow money yourself, or spend some of your own, to get yourself ready for an increase in business. Multiply this attitude of yours by millions, since other businessmen and the buying public will have the same attitude, and you can see how a recession could be brought to a halt.

Evidently the hucksters of gloom do not read the Federal Reserve Bulletin. If they do, and if they had read the July, 1953, issue of the publication, they would see spelled out the pronounced intentions of the Federal Reserve authorities to prevent a slump or a depression from occurring. The Reserve people do not use the same language that you and I do. But they announced twelve months ago that they would use the power which is in their hands to increase spending whenever it was deemed necessary.

THE MEN who govern the Federal Reserve banks are perhaps a little timid because they do not like to admit that they have such enormous power to control the monetary system. The Congress has never told them to what end they shall use this power, although the Constitution gives to the Congress

the power to "regulate the value of money." Congress should lay down an objective for the Federal Reserve. Maybe it will some day. Until that day arrives, we have to rely on what the Federal Reserve people say they are going to do; and they say they are going to give us stability.

Of course, there are people who will say that the open market device has been tried before—and it did not work. That is true. The Federal Reserve banks have bought Government bonds in past periods of slowdown and more recently during the "rolling adjustment." But they didn't always buy enough bonds, or didn't buy them quickly enough. And they didn't announce their policy *in words that people could understand!*

GETTING out of a recession is a complicated process; and managing the monetary system is just one ingredient that goes into the prescription. The open market

operation device is only one of the various devices available to the Federal Reserve authorities to regulate the totality of spending. There are at least ten others. The one we are discussing here is positive and effective, and, properly managed, it entails no vicious consequences; and, most important, it is now available.

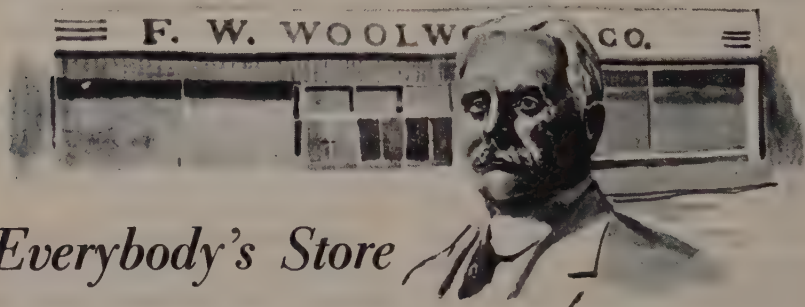
Finally, it is necessary that we look at all the tools we now possess for the maintenance of stability with an attitude that depressions *are* unnecessary. There are some who say that we cannot have continuous prosperity; that we must have "readjustments"; and that the way to avoid a possible depression is to dampen down the prosperity. This is tantamount to saying that a man should not be too healthy too long, because his inevitable sickness will be that much worse. This is rationalization. Reasonably stable prosperity is attainable, if we know how to handle the economic tools we now possess. ■



The Charm of Music

A DAYTON, OHIO builder of low-cost housing will attempt to use the charm of music in a double-barreled shot aimed at improving his business and decreasing labor costs. The idea, he thinks, is to alter the rhythm—fast during the working day (to speed up the workers) and slow "dinner music" in the late afternoon and early evening; (to put prospective customers in a home-loving mood).

Although there are few things a nickel or dime can buy today, Woolworth's idea of 75 years ago revolutionized retail selling



Everybody's Store

THE YEAR WAS 1879. Rutherford B. Hayes was in the White House; Thomas Edison had just invented the electric light bulb; great railroads were spanning the continent. Everywhere in America big things were afoot. Consequently, nobody took much notice when young Frank Woolworth rented a tiny store in a narrow side street of Utica, N. Y. and hung up the sign, "Great 5¢ Store."

A few minutes after the store opened, a woman came in and purchased a fire shovel for five cents—and F. W. Woolworth had made his first sale. From that modest beginning sprang a world-wide chain of stores that has been growing ever since—and is now a legend in American enterprise.

Woolworth had scraped together only \$350 of borrowed capital. But he had a lot of faith in himself and in his ideas about merchandising—ideas that were to

revolutionize retailing methods as well as the shopping habits of the public.

As a clerk in a dry goods store in Watertown, N. Y., Woolworth helped introduce the "5¢ counter"—an experiment at the time. It caught on like wildfire. Seeing the potentialities of this idea, he decided to open his own store in Utica. Because of a poor location, however, that store failed after a few months. But Woolworth was not disheartened.

He tried again—this time in Lancaster, Pa.—and was a spectacular success. By the time the opening-day debris was swept from the store, he was planning his next branch.

Woolworth's retail sales methods differed radically from those then generally in use. Today it is difficult to imagine how things were sold seventy or eighty years ago. On entering a dry goods store where small wares and "Yankee

notions" were on sale, the customer met long stretches of bare counters. Behind them stood clerks. All of the merchandise was kept on shelves along the wall—there was no such thing as a "counter display." Shoppers were expected to know in advance what they wanted.

Woolworth's ideas explain why his store attracted swarms of shoppers. First, all merchandise was sold at one low, fixed price, and on a spot-cash basis. This was unusual, but who could ask for credit when buying only a few nickels' or dimes' worth of goods?

But most important, all goods were displayed on the counters so that customers could see and handle everything. People, not accustomed to being invited to "see for themselves," came in droves. They saw, they handled *and they bought*—usually much more than they had intended to buy on first entering the store.

WOOLWORTH opened store after store. His success was further heightened by the fact that mass sales gave him mass buying power. Quantity buying, in turn, meant that he could greatly expand the variety of goods he was able to offer at a low selling price—and still make a profit. The result was progressively larger sales through more and more stores, which were opened as readily as

locations and help could be found.

The Woolworth chain grew amazingly; ten years in business and he owned a dozen stores. By 1899, this number grew to 54; by 1909 there were 238; and by 1919 more than a thousand.

The problem of finding able personnel was met by starting a system of training for future store managers. Young men were started in stockrooms, as had Woolworth himself; then they were put through intensive training. As soon as vacancies opened, they were moved up. Woolworth insisted that managerial ability be developed from within.

Managers shared in the profits of the stores, and their earnings were never limited. Minimum wages for all other employees were also set—a unique blend, at the time, of incentive and security.

Although Woolworth lived in the horse-and-buggy era, in his mind's eye he had a vision of America's future—one justified by the country's phenomenal growth. Besides having stores in each of the forty-eight states and in Canada, others have been opened during the last two decades in Great Britain, Ireland, Germany and Cuba; in all, they now exceed 3,000. This year, their seventy-fifth, the Woolworth "5-and-10" Stores will sell no less than \$750,000,000 worth of goods. ■

*The millions of little people, who daily decide
to spend or not to spend, exercise a collective, potent
force which shapes the course of the economy*

CONSUMERS CALL THE TURN

THE OTHER DAY one of my oldest friends called me up. "Would you be interested in renting a summer home for a month?" she asked almost immediately. It turned out that she and her husband had found an attractive six-room cottage at a nearby lake, and they were looking for a family to share it with them for part of the summer. When I asked why they weren't renting for the whole season, as usual, the answer was: "We've got to tighten our belts this year, you know."

Her phrase stuck in my mind. It is a phrase one hears often enough these days, especially if one is in the business of economic analysis, as I am. But coming from a woman who wouldn't be caught dead reading the business pages of a newspaper, it made me realize how far concern about a recession had penetrated the mind of an average individual.

My friends who are cutting their vacation outlay in half are typical of a great many people who are worried about their economic future, and who in the

broad sense are *weakening their own prospects*.

CONSUMERS, in family units mostly, take the largest share of the nation's products and services — nearly two-thirds currently. Therefore, when consumer demand goes up, producers and sellers respond with urgency and cheer. When this demand dwindles, trouble grows. Goods get dusty in stores, production slows down in factories, pay envelopes shrink—the whole economy drags.

Of course, rises and falls in consumer demand reflect changes in the other basic economic goings-on. Right now families are still reacting to the slowdown caused by the cutback in Government spending and the general decline of new orders throughout business.

Compared with a year ago, the buying of *goods* is down. An increase in payments for necessary *services* has, however, made up the difference as far as total consumer spending is concerned (the costs of most services—rent, electricity,

repairs, hospitalization, education—having continued their long-term rise). What has happened is that people working in factories have somewhat less money to spend, but the people providing services have more. This has led to a change in the pattern of consumer spending, although the totality of spending has remained unchanged.

In the recent buying of goods there is a corresponding pattern of selection. Consumers have been spending just about as much for food as a year ago, and more for drug store items. But they have been buying fewer costly items, fewer cars, sofas and suits. This has been felt particularly by the durable goods industries and their millions of employees.

WHEN sounded out by the Federal Reserve System's Survey of Consumer Finances as to 1954 buying plans, sample families expressed a wait-and-see attitude. Few wanted to commit funds for long periods or take on less than sure-fire investments. Preponderantly, they said they would put off big-scale purchases until the end of the year, or later. To date, however, total expenditure this year has kept up with last year's pace. The declared caution of consumers has been reflected more by a change in the pattern of spending rather than by the totality.

Of the factors that will have an effect on consumer buying ahead, four stand out more or less measurably. These are employment, savings, prices and consumer debt.

BY LAST APRIL, average weekly hours worked in manufacturing had dropped to the lowest point since 1949. Total unemployment had risen to more than three and one-half million. In the steel industry, the change from overtime to "undertime" cut employees' incomes severely. As a number of workers were laid off and others put on shorter work-weeks, some Pittsburgh clothing stores recorded a 40 percent decline in sales as compared against the same period in 1953. Appliance and furniture businesses lost ground, too. Even food markets grossed less as housewives switched from lamb chops to frankfurters, and from asparagus to cabbage.

At this writing, the number of people out of work approaches 4,000,000. This includes recent graduates. Despite signs of improvement, unemployment of this scope will not only force families directly affected to limit buying, but it may frighten many others not directly affected into buying less, as well.

Savings will ease the situation somewhat. In the past year, individuals accumulated \$13,600,-

000,000 of liquid assets—in Government bonds, checking and savings accounts, and postal savings. This rate of savings has led to the greatest accumulation of funds since 1946. At the beginning of this year, the total of liquid assets (excluding corporate securities) added up to a hefty \$379,000,000,000. Vis-a-vis these assets, the total debt of individuals, \$80,000,000,000, seems puny.

However, the greater part of these savings is held by those who are in the least economic difficulty. Despite the fact that the share of savings held by the lowest income groups has risen considerably in the postwar period, the top seventh in the income bracket still holds 49 percent of the total liquid assets. If any tapering of income of the lower brackets should occur, their buying power would be considerably reduced in the months ahead.

As to price levels and the use of consumer credit, spending behavior of consumers takes on a more hopeful aspect.

IN RESPONSE to price-cutting by discount houses, low- and middle-income consumers have been scooping up tons of merchandise that would otherwise be stuffing warehouses. In answer to limited price reductions in general, families have been buying with sufficient alacrity to absorb a substan-

tially greater volume of goods than current statistics would seem to show—failing as they do to reflect price cuts or discount house transactions.

Retailers' returns continue to lag, of course. Montgomery Ward, for example, suffered a 23 percent drop in sales in March, 1954 compared to March, 1953. While Ward's depressing figures are not the worst, there are other businesses which actually show an increase in sales over last year. The most apt description of what has been happening is that some retailers have suffered by the change in the pattern of consumer spending, but the totality of that spending is keeping pace with that of former "good" years.

IN CONSUMER credit a turning point may be at hand. Installment payments are still massive, following the record expansion of borrowings in the year ending in mid-1953. A family that still has months of payments to make on a car, a washing machine, an air conditioning unit, will think twice before signing up for another big item on the cuff—even where there is no income loss to worry about. But by early fall, the national rate of payments should level off. Many people may be expected to start over with new loans, initiating a new chain re-

action of demand throughout the economy.

So much for specific conditions. There are a host of other, more nebulous, determinants at work, and they could well prove to be decisive in stemming, or accentuating, the current slow business downtrend. Underlying all of them is the question: Which is stronger—fear of a decline in income, or desire to maintain, or improve, the standard of living?

This question may be applied with special emphasis to attitudes toward housing. Thus far, residential building has been going along at an unexpectedly high rate. But builders have a decidedly harder time selling their houses. They have to wait longer, and they must offer more to prospective buyers—larger, more comfortable rooms, high-quality materials, built-in appliances. Impending liberalization of payment terms under the new Housing Act, almost a certainty, should persuade many a family to take the step—particularly if they have caught the fever to get away from the city.

The extent to which families continue to seek “a healthier place to bring up the kids” and the congenial atmosphere of suburban living will have a lot to do with the vitality of our economy. With new houses go new furniture, appliances, garden tools, even cars.

For former city dwellers the leafy surroundings set up a new way of life, with a new set of values, a new set of wants—which combine to spur businessmen into new enterprise and output.

Until lately, consumers have been regarded as a passive influence in determining the rate of economic activity (compared with the forces of business investment, Government spending and so on). In the abstract they have been considered to be, and have been, an eyeless, unstable force, measurable only in its vastness.

With increasing awareness of their cumulative power in the economy, consumers will become more confident and more demanding. As they become better informed of what they are doing and are capable of doing, they will realize their role in the economy more and more and express their intentions through the voting power of their dollars.

To the extent they learn their role and participate further in the economy, the mass of consumer families will add to their direct authority in it. As they do so they will decide more and more not only what things shall be made and enjoyed, but the rate and degree of stability at which they shall be increased. With knowledge, the nation's consumers will determine their collective and individual economic destiny. —J.M.

A salt-water bait business takes to the air, rushing fresh supplies to anglers from Maine to Florida

Fishing Worms That Fly

by Eric Berger



"**B**LOODWORMS for salt-water fishing?" The man in the general store repeated our question. "Frenchman Bay has the best bloodworms in Maine. Get all you want a quarter mile down the road, next to the West Sullivan Post Office. Look for 'Mud's' place—yellow house on the right, just before you make the turn over the bridge. Go in through the back door to the cellar."

The directions were precise. The long cellar was cool, spacious, spotless. A counter ran along one wall. A thickset man in hip boots was sitting at a desk in the corner.

"Bloodworms? Sure!" The man walked to a bucket near the door, stuck in his hand and came up with a fistful of mud and the wriggling worms. "Culls," he observed, picking out the fattest

worms and tossing the others back.

"No, I can't give you any of the good worms. They're packed in those cartons, ready for shipping. Every last one of them has to go by air to a dealer in New York."

Our offer to pay for the leftover worms was refused. "Can't take money for the culls. I would have tossed them into the bay anyway."

"Mud," whose name is really Oscar Greeley, ships about 20,000 worms daily from Frenchman Bay.

"I start shipping around the middle of March," he explained, "and keep it up until Thanksgiving. Twenty to twenty-five diggers work for me all the time. Each man digs from 500 to 1,000 worms a day, working about two or three hours at low tide. They get \$1.75 a hundred and average \$80 to \$100 a week apiece. Most go into debt over the winter—not to me, but to the storekeeper who gives them credit. All my worms

Eric Berger, an editor with Scholastic Magazines, a publishing group, unearthed the material for this article while on vacation recently.

go to a dealer by the name of Bill Mathews in Brooklyn. You might look him up when you get back to New York."

WE FOUND Bill Mathews and his store in the Canarsie section of Brooklyn, an area bordering Jamaica Bay. The story runs that one of his remote ancestors bought all the land of the Canarsie Indians for a wagonload of trading goods. When state and community lines were mapped, however, Indian land grants were ignored. So today, Mathews, like his ancestors beginning with his great-great-grandfather, is in the bait business.

Mathews works from a small store crowded by a counter, file cabinets, two enormous refrigerators, and a desk over which is tacked a print of a Gordon Grant painting entitled "The Worm Diggers."

Bloodworms arrive from Bar Harbor, Portland and Newcastle, in Maine; and from Yarmouth, Nova Scotia. Sandworms come from St. John, New Brunswick. Until 1946 Mathews depended on railroads for both pickup and delivery, selling practically all his squirming commodity along the Jersey coast southward to Cape May. In that year he took the opportunity of expanding business when Northeast Airlines extended operations to Maine.

With his business now increased fourfold, Mathews ships about 5,000,000 bloodworms and sandworms a year. They go to bait dealers up and down the Atlantic Seaboard as far south as Florida, and across the country to Long Beach, California. Bloodworms and sandworms are the only type of live salt-water bait to be shipped by air, and Mathews still holds what amounts to a monopoly in this field of operation.

THE season for selling worms opens about St. Patrick's Day and continues through Thanksgiving. Between Decoration Day and Labor Day Mathews works around the clock with the assistance of Mrs. Mathews and two drivers.

"The plane from St. John is my last pickup of the day," Mathews related. "It arrives at three in the morning. But it's four-thirty before I clear customs. The weed around the sandworms has to be inspected by the Department of Agriculture, and I've got to pay a seven-and-a-half percent duty on them. By the time I get back to my place it's five o'clock. I set up the routes for the local men, load the trucks, and get three hours of sleep. Then I'm up again and out to the airports, shuttling between La Guardia and Idlewild, trying to save time by combining pickups and shipments."

Mathews explained how he keeps

going. "I build up a crisis inside of me, always driving myself, trying to unload the worms and ship them, trying to get more worms. It's a gamble. On a rainy weekend, I might lose 5,000 worms.

"You have to watch weather reports from all over the country. If it's raining in New York, you try to unload in Florida and vice versa. And you have to scan the *Farmer's Almanac* or you get squeezed between supply and demand. When you have an apogee tide, there's very little digging and you run low on worms. So, once a month you're in trouble. On the other hand, when you have a perigee tide the bay practically runs dry. Diggers can work from six to eight hours at a stretch. You have all the worms you can use—sometimes more, if you're caught in a rainy spell.

"There's a romance to it. You work like blazes for seven months, but you keep going. You know the man in Maine is digging worms on your dollar. So you drive yourself to get rid of them."

Air shipment pays, even though it's expensive. "The airline is responsible for all delays," Mathews said, "except those caused by acts of God. But bad weather that de-

lays a flight for days is an act of God. Therefore, the losses come mostly out of your pocket.

"You figure ten percent of your turnover as a loss—last summer in Washington 250,000 out of 2,000,000 worms were lost by disease."

The healthiest bloodworms in the United States are those from Frenchman Bay, Maine. "They'll live for fifteen days without eating," as Mathews told it. "They even survive the cross-country shipment to California. Bloodworms are more plentiful in Nova Scotia, and the labor cost of digging is cheaper. But the Nova Scotia bloodworms, like those of most other areas, won't stand the strain of shipment for more than seven days."

Mathews said that more money is spent in the United States on fishing than on any other sport. "The largest sport-fishing city in the country is Baltimore," he said. "I know by the number of worms I sell. Fifty percent of the city goes fishing."

Does Mathews enjoy fishing?

"I never fished in my life," he confessed. "Neither did my father, or anybody else in my family that I know of." ■



A modern jet fighter plane uses enough tubing to equip the heating and water systems of five six-room houses.

In the process of chasing after unpaid bills, the collection agency impresses people with the importance of living within their means

THEY GUARD THE CONSUMER CREDIT SYSTEM

by Michel Lipman

THE BUSINESSMEN of this country have made a sizable bet on the honesty of their customers. About \$27,000,000,000, in the form of consumer credit, is riding on the American consumer.

This huge sum, recorded only by a few pen-scratches on ledger sheets, is unsecured by any mortgage, pledge or guarantee. Retailers have handed out TV sets, clothing, appliances and automobiles; and professional people have given their services in the belief that their customers will pay their debts when they fall due.

Consumer credit is a bet calculated to return profits, and its impact on the economy has been great. It spurs the sale of almost all durable goods, thus stimulating production and employment in basic industries. And by boosting the standard of living of middle-

and lower-income groups, it helps create a larger demand for goods. Four-fifths of this debt is installment credit, while the rest consists of charge accounts and single-payment loans.

Retailers who sell on the installment plan have in turn gone into debt for many more billions to jobbers and wholesalers. It would seem to be a ticklish situation, for a slowdown in payments by retail customers means a slowdown through the line, back to the manufacturer. Yet the mercantile world is neither worried nor jittery. Business is confident that its customers will pay practically every dime owed.

Few, however, realize that the flow of payment is due in large part to an effective watch kept by 1,800 member agencies of the American Collectors Association, plus other collectors and attorneys operating in cities and towns throughout the nation. ACA agencies personally contact 9,000,000

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debtors a year, write 50,000 letters every working day, employ about 7,000 people, and collect \$10,000,000 a month in bad debts.

This is a valuable service in itself, but more valuable is the fact that these ACA members act as the trouble-shooters of the American credit system. Because of unemployment, loss of income or lower take-home pay lately, some borrowers have fallen behind in their payments. The services of ACA agencies, in easing this situation, helps keep the consumer economy in balance.

Their trouble-shooting often produces striking chain reactions. Carl Williams, who operates a successful collection agency in San Diego, California, received an account involving a considerable sum from a fellow collector in New Jersey. The debtor, "Green," was a slippery young man who had been traced to Oklahoma, then to Texas and finally to San Diego, where Williams located him working at an aircraft factory. "Green" was a single man, changed jobs often, drove an almost-paid-for late-model car, and lived at a boarding house uptown. Two more of Williams' reluctant debtors also lived there.

"Green" ignored the agency's request for payment—and shortly found both his automobile and his salary under attachment. There was nothing for him to do but

arrange immediate payment. Two hours later, "Jones," one of the other debtors, came in quietly and paid his balance in full. The same afternoon, "Smith," the third debtor, paid up, too.

ACCURATELY estimating the millions of dollars collectors save business yearly isn't easy. As crime is checked by the existence of policemen on the beat, so credit channels are kept open by the existence of collection agencies. It is significant that states which restrict agencies have the biggest credit headaches. Merchants in such states must either adopt very conservative credit policies, or increase their mark-up to cover excessive losses.

Almost all agencies work on the basis of taking a percentage of all payments actually collected from debtors. A few may charge small fees on accepting accounts from creditors, but these are rare. With their expenses and profit thus directly geared to operating efficiency, you might expect collectors to be a fairly tough, sharp group of opportunists. Years ago there was some basis for that belief. In Grandfather's day the bill-adjuster might make his calls with a horse and buggy bearing the big bold legend, "*Bad Debt Bureau. We Go After Dead Beats.*"

Today's collectors are regulated by law, and their own Association

Code of Ethics forbids them from employing ruthless, oppressive, or unconscionable tactics. Half a century ago anyone with a loud voice and plenty of brass could jump into the business with a handful of accounts. He needed only desk space, letterheads and a few nickels for streetcar fare. Today the picture has changed.

A MODERN collection office, fully equipped, with ten, twelve, or even a hundred people on the payroll, represents a heavy investment. The shoestring operator cannot compete successfully. Moreover, the collector is required in some states to pass a licensing examination, possess certain financial assets, and qualify for a substantial bond. Thirty-eight states exercise some form of control over collection agencies.

Old-time collectors would be amazed—even shocked—at some of the newfangled ideas now being employed. The new practitioners have borrowed techniques from the social scientists. They know that most non-payment of debt is due to mismanagement of income.

A typical couple—the “Browns”—have three children and a kitchen drawer full of unpaid bills. When invited to the collector’s office, they are likely to be disturbed, worried, perhaps a little resentful. They would pay up if

they could—only they just don’t have the money. “With three children, and living costs the way they are, what can we do?” they ask. Their attitude is often one of passive resistance.

The first phase of the collector’s work is to build up a genuine desire to pay. “Your credit reputation is being built at this very moment,” the defaulting couple might be told. “Somewhere there’s a slip of paper with the full story of your paying habits. Wherever you go that record follows, ready to tell all to a prospective employer, landlord, banker, loan company, merchant or professional man.”

The “Browns” never thought of it that way. They didn’t know their credit was such a personal thing, that good credit is a valuable asset.

Now they have been conditioned for the second phase of the collector’s procedure, which is to analyze their entire financial picture and find out just why they cannot make ends meet. A “planned spending” program—or budget—is worked out, leaving a portion of current income to pay off debts.

This more positive approach to collections means an ultimate increase in responsibility on the part of uninformed consumers. It helps to maintain a stability in the consumer credit side of the economy, and at the same time it

keeps the retailers' shelves free of worn and devalued goods which have had to be repossessed.

PERSONAL interviews are often supplemented by pamphlets, brochures and magazine reprints published by the ACA's Educational Council. These tell the story of credit, and suggest ways and means of stretching dollars further.

"Strangely enough," says Alvin Steinberg, a Washington, D. C. collector, "most of the people we deal with have never heard of budgeting. Or if they have, they don't like the word! But no one seems to object to *planned spending*, and people listen intently when we tell them how meat grinders and pressure cookers can cut food bills, and how to save on clothes, rent and automobile operation."

Is credit education a practical approach to bill collection? Leading collection specialists say "yes." They point to the fact that although many more accounts are handled today, the percentage of lawsuits filed by agencies or referred to creditors for suit, has dropped.

One San Francisco agency conducted a year-long experiment, using an unusually difficult type of account. The only change in procedure was to enclose pamphlets on credit and budgeting

with its regular mailings. Gross collections during the test year jumped well over 100 percent—a nice recovery for creditors.

HAVE all bill-collectors changed over from the old-fashioned, rough-and-rugged methods? Are debtors now entirely immune from harassments, duns, calls to employers, and other collection activities?

The answer is "no," and for two reasons. One is that many collection agencies lack full understanding of the educational approach. They are unwilling to change established habits and procedures, and in some instances lack trained personnel.

However, the new collection philosophy is spreading rapidly within the American Collectors Association, aided by regional institutes, conferences and conventions. Their educational materials are also available to other collectors' organizations. However, many collectors are not members of any professional group and so are generally unfamiliar with recent developments in their field. The other reason is that voluntary methods simply do not work in every case. Some people just don't want to pay their bills, and sterner methods must be used.

Some collectors believe they have a special responsibility towards new credit-users. Every

year young people graduate from high schools, find jobs, marry, and start raising families. Few have any practical financial training. They have a normal desire to have nice things *now*. Paying the price is something they'll worry about in the future. Often they do manage to live comfortably and meet their obligations.

Too many are like the young couple who married at nineteen and decided to "live right." Both worked, and they had almost \$400 monthly in take-home pay. They were paying on a 1949 car, a \$300 refrigerator, \$187 bedroom set, \$165 maple living room set, new \$250 stove, \$200 worth of clothes, a \$75 vacuum cleaner, and a \$235 engagement-wedding ring set. In addition, there was food, rent, transportation, cigarettes and entertainment to pay for. Still they managed—until the young wife found she was going to have a baby.

But hers was a complicated pregnancy and cost far more than they expected. With additional expenses, and lacking the wife's earnings, the young couple fell behind on their bills.

It was only after receiving financial counseling from a sympathetic collector that they realized they would have to give up the car, make arrangements to return some of the merchandise, and

move to cheaper quarters. Finally, by firm self-discipline and denial, they were able to dig out of the red and resume living on a less luxurious but more realistic basis.

Collectors do what they can to help in situations like this, but usually the damage has been done by the time they come into the picture. Since they must protect the creditors' interests, they cannot always be liberal in arranging payment terms.

Modern procedures, new approaches, better training of personnel keep credit losses at a minimum. Many retail merchandisers report their "charge-offs" are less than one percent of their gross business, and wholesalers are in an equally strong position.

Much of the praise for this goes to responsible consumers, but the trouble-shooters of the credit system deserve their share. Their presence prevents many credit delinquencies, and they reclaim many nearly-lost accounts. Through more positive methods, collection agencies can help to impress the importance of financial responsibility upon those who have not learned it; and they help such people to re-establish themselves on a more secure living plane. In doing this, collection agencies help assure the stability of the credit system itself. ■

From the Rostrum

The new technology which harnesses the atom has already begun to make a new world—but the fate of man still hangs in the balance

The Atomic Revolution

by John Jay Hopkins

WE HAVE LEARNED and are learning—as we have had to do with fire—that the *uncontrolled* release of atomic energy can be the world's greatest evil. Atomic energy *controlled* can become the world's greatest material blessing—a major achievement of the spirit of man in the conquest of his material world. This is the dual destiny of the atom. Yet it must be borne in mind during this current wave of mild hysteria—and during the future recurring atmospheres of apprehension which are bound to encompass us—that the atomic fission missile has no motive, that the thermo-nuclear device has no brain, and that the theoretical bomb of cobalt would be but an inert genie unless activated by man as an instrument of total self-destruction.



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What we need to fear, and should seek to control, is not the H-bomb, but rather the human spirit and thought that breed behind this bomb—and the hate, or greed, or fear that trembles on the trigger.

Because creation is infinitely more difficult than destruction, the curbing of atomic energy to peacetime use has become the greatest technological challenge of our day.

It seems fair to compare the revolutionary impact of atomic energy on our world economy with the discovery of fire, steam and electricity, and the power sources

Adapted from a recent address by Mr. Hopkins before the Economic Club of New York.

of coal, oil, wood and falling water. But the nature of the atomic revolution is infinitely more varied in scope than any mere *power* revolution. I foresee that the atomic revolution will transform not only power, travel, transport, and communication, with new portable power packs, but will revolutionize our economies, our social customs, our medicine, our finances, our politics, our agriculture, our biology!

The atom is revolt *incarnate* against the *status quo*!

As a matter of fact, more than 1,000 firms in the United States and Canada, to say nothing of the rest of the world, are already employing the atom in everyday, routine operations.

For example, some 300 companies in North America alone are now using atomic energy in radiation instruments that inspect metal parts of the products they make. A further 250 firms are using atomic thickness gauges to measure and control the coating on such things as paper and galvanized iron.

A TYPICAL radiography installation may cost a factory about \$750. Its predecessor, an industrial X-ray machine, might cost \$10,000 or more. The atom thus offers cheap, reliable inspection of parts—which means faster, lower-cost production. The result is that

more and more industrial firms are adopting these “tools” of the atomic revolution. Automobile manufacturers use them on cylinders, pistons, connecting rods. Airplane companies, boiler manufacturers and a host of others are putting the atom to work.

Atomic tracers provide another growing source of atomic aides for industry. For an interesting example, a speck of radioactive material is dropped into a pipeline when a shipment of gasoline is pumped into the line, followed by a shipment of fuel oil. With a Geiger counter, a workman at the other end of the line can then tell when to stop pumping the pipeline's flow into the gasoline storage tank, and switch it over to the fuel-oil tank. This workman formerly had to take samples from the pipeline in order to know when one product was being replaced by the other. Considerable intermixing and delay, where the second shipment joined the first, was of course inevitable.

Atomic radiation, therefore, is upsetting the *status quo* by faster, cheaper, more reliable ways of investigating the wear in pistons, of measuring the thickness of films of rubber, paper and metals, in the radiography of castings, in the detection of impurities in dyes, paints, crystals and chemicals. Agricultural research is making studies of great impor-

tance on plant growth and soil process through the use of radioactive stimulants and tracers.

So great is the expansion of uses of radioactivity in the field of medicine, it is estimated that *already the lives of more people have been saved by the atom than were lost in the Hiroshima and Nagasaki explosions!*

For example, through the use of radioactive phosphorus—which checks the overproduction of red blood cells in the bone marrow—the lives of sufferers from leukemia have been prolonged. And one of our most famous ethical laboratories is offering radioactive iodine in capsule form for the treatment of thyroid disorders without the need of hospitalization or elaborate controls.

The largest single employer of isotopic materials is industry. The second largest application is in the field of medicine. Some perspective on our progress in the last few years may be gained from the figures on shipment of radioactive isotopes. In 1946 there was a total of 246 shipments; in 1953 there were 10,676. Other nations, particularly Canada, are also large producers.

Now what can we say of atomic power?

Spurred by the constantly rising cost of coal as mines become deeper and veins thinner, the Brit-

ish are moving swiftly to place greater and greater emphasis on power from atomic energy. Indeed, British scientists and engineers now conclude that within fifteen to twenty years nuclear energy should be able to make a substantial contribution to the electricity supply of Britain at a cost comparable with the cost of coal-generated electricity. In that time it may be possible to set up a reactor system which would generate enough electricity to save 20,000,000 tons of coal a year—the amount by which estimated production will fall short of estimated requirements in the next two decades. Not only would there be a considerable saving in cost, but the partial introduction of nuclear power may also make possible a shift of manpower from marginal coal mines to more productive activities.

The atom offers great hope for the continent of Europe, which clearly faces a power shortage in the foreseeable future. One expert estimates that in the next 100 years the world will burn up thirty-seven times as much energy as has been produced in the last 2,000 years. A twelve-nation European pool is building the world's largest atom smasher near Geneva, Switzerland, pooling atomic research for peacetime purposes.

Here, in the United States, the Atomic Energy Commission is

proceeding with the development of the first nuclear power plant to produce electrical energy on a commercial scale. The engineering and cost experience in this 60,000-kilowatt project and industry's direct participation in its construction and management phases will show the way for future independent enterprise.

ATOMIC ENERGY, then, as a revolutionary source for power scores its first chance on the basis of simple economics. Today experts are hesitant to say that nuclear-powered plants will soon produce power below the cost of our most efficient conventionally fueled plants. There are few, however, who will fail to estimate even now that a nuclear-powered plant *can* be built to produce power at a cost somewhere in the upper one-third of present U. S. power costs. These estimates, bear in mind, are being made before the first, full-scale power plant has even been built. How can anyone doubt that American ingenuity will bring nuclear energy into sharp competition with existing sources, *when it is already starting out at only twice the current figures?* The answer seems obvious.

On a second score, too, the atom *must* achieve a revolution in our energy sources. This is simply because the potential reserves of

energy from fissionable materials are now estimated to be over twenty times that available from existing mineral fuels—coal, oil and gas. We must bear in mind, first, that the rate of energy used is growing more rapidly, even, than our population rate. We are therefore forced to anticipate those demands which cannot be met by our capital resources in existing fuels. Thus, I think, fissionable materials are arriving just in time to substitute a brighter lamp for the candles we now burn at both ends.

Thirdly, we come to a factor which may seem like the same point I have made on economics, but actually is quite different. This I call simply the "portability factor" or the great concentration of energy contained in fissionable fuels.

The pound of coal we use today may produce about one kilowatt-hour of energy. This is roughly 2,000 times the energy equivalent of a pound of muscle-power, our prime energy source back in the days of our colonial beginnings.

IN comparison with this, what does the atom offer? A pound of the pure fissionable material, uranium 235, we are told, has the energy value of, say, 2,500,000 pounds of coal. Even if we were to realize only one percent of that energy value, the portability of

our energy would be increased by a factor of 25,000. Compare that factor of 25,000 and its implications on the range of energy exploitation that lies in the next generation, with the growth that has taken place from a 2,000-fold concentration of energy spread over a period of 200 years.

Progress in the field of atomic propulsion, of course, offers fantastic prospects in the years ahead. The world's first atomic-powered submarines, the revolutionary *Nautilus* and *Sea Wolf*, will be able to cruise submerged at speeds in excess of twenty knots. A few pounds of uranium will give them ample fuel to travel thousands of miles under water.

Basically, it is not much of a step from atomic-powered submarines to atomic-powered combat and passenger ships and to nuclear-propelled airplanes and trains. These present different problems, but in the light of gains already made they do not look too far off—but rather well within our compass. I venture to say that we will have them—and in the not-far-distant future. Indeed, I have no hesitancy about picturing for you a world of the *near* future in which atomic energy heats and powers our factories, lights our cities, cooks our food, cures our ills and propels our ships, planes and trains.

And I have hopes that the use

of atomic energy in one of its Protean forms will yet solve two of civilization's most difficult problems—the economical distillation of sea water for industrial and agricultural use, and the instantaneous disposal of human and industrial wastes. Each of these is a problem in power, or in transmutation, or in sterilization—problems which, apparently, only the atom is mighty enough and versatile enough to solve.

The road from the here of today to this world of the future is not so clearly marked as we would like it, but it is intriguing and challenging—*thrilling* is the word I would prefer.

But the atomic age does not provide us only with an "open sesame" to the treasure houses of the world's natural wealth. It has also, with classic irony, given us the key to the "Pandora's Box" of the world's ills and evils. We already have in being a rapidly growing atomic technology. We are beginning, though somewhat faintly, to foresee the *economy* of this new era. But we lack a vigorous exposition of the philosophy of the atomic age. We lack what a great and distinguished churchman has recently called a *Pax Technica*—a peace governed by a devoutly ethical responsibility for retaining control over this advance of science which *could* destroy the world. ■

From the Bookshelf

A conference of top businessmen and economists looks into the problem of stepping up private investment during economic slack periods

Can Businessmen Act To Offset Slumps?

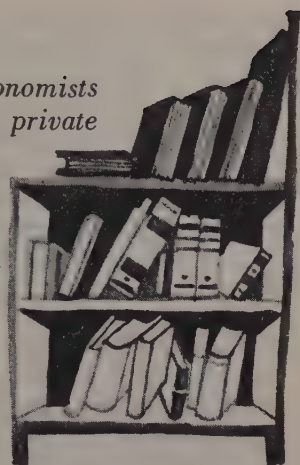
Reviewed by John S. Gambs

REGULARIZATION OF BUSINESS INVESTMENT, a report of the National Bureau of Economic Research. Edited by Melvin G. de Chazeau. 518 pp. Princeton, N. J.: Princeton University Press. \$8.00

THOSE OF US who can remember how services were rendered before the ice-cube age recall that the iceman was also the coal dealer. Ice in summer and coal in winter, using his horses every day—that was how the enterpriser kept bringing money into the till from January through December.

Though seasonal peaks and troughs can never be completely overcome as long as we need skates in winter and bathing suits in summer, lamb at Easter and turkey at Thanksgiving, the

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American businessman has learned to come to terms with these variations. He continues to do a reasonably good job of cutting the tops and bottoms off the annual cycles of his firm. He does it without intervention by Government and without collusion.

Since the end of World War II, business has shown lively interest in attacking a larger cyclical problem, that of the general business cycle. In brief, business cycles are the patterns of recession and depression (the "downs") and of revival and expansion (the "ups") revealed as part of the over-all picture of the national business structure. What business itself can do to level out this roller coaster of national boom and bust is the consuming issue of the day.

During this year three prominent books have been addressed to

the problem of achieving economic stability. *Why Do People Buy?*, written by the editors of *Fortune*, was reviewed in *CHALLENGE* last December. A second pertinent book, *The Standards We Raise*, was authored by retailing expert Paul Mazur. The subject of the essay before us, *Regularization of Business Investment*, compiled by the National Bureau of Economic Research, is the third attempt at answering this question.

All of these authors base their discussions on the same assumption, namely, that general economic instability can be traced to fluctuations in two dynamic forces. The first of these is spending by consumers for the products of industry, and the second is investment spending by business for *new* steam shovels, *new* buildings and *new* drill presses, etc. (This does not take account of the purchase of shares in companies like General Electric or AT&T, for the stock market is really a second-hand market.)

If either consumer spending or investment should fall off too sharply in the next year or two, we would have a depression with widespread unemployment. If either should increase too much, we would have a sort of super-saturated prosperity—and inflation. Of course, for the sake of agreement on principle, these books eliminate the uncertainties

of spending for defense.

Starting, then, with these premises, the authors attempt to find feasible ways to regularize spending by consumers and by business, emphasizing the prevention of untimely cutbacks. They seek simultaneously to minimize the need for Government intervention in arriving at a solution.

The *Fortune* and Mazur books deal with the consumer. The question they ask, stated candidly, is: How can we take money away from oversaving, overcautious families? Simply, they think consumer spending can be induced by a mighty selling effort.

The book, edited and compiled by Melvin G. de Chazeau of Cornell University for the National Bureau of Economic Research, scrutinizes the active, investing businessman. It inquires: How can we make the businessman invest right through recession and depression?

For example, suppose that in a year of low business activity, a telephone company looks ahead to the probable need for putting up 10,000 poles in the next five years. Should it postpone the job or begin to carry it out at once? If it postpones the installation of poles, the company may give inadequate service or lose some new business. If it starts the job right away, it runs the risk of putting up more poles than might be needed

or of passing over an invention that will make telephone poles obsolete. Not only is it usually cheaper to erect poles in a bad year, but there is also the possibility of long-term rewards if this expansion encourages related activity by customers like gas companies and railroads. This sort of concerted action might help to avert depression, and thus sustain the phone company's own income.

QUESTION: Should the telephone company postpone investment in poles, or should it get busy in the bad year?

Regularization of Business Investment attempts to answer this sort of investment dilemma. This book is the edited transcript of the records of a conference called by the National Bureau late in 1951. The twenty-five men who participated were officers and economic advisers of well-known corporations and "name" economists from academic circles. True, the conferees' solutions to the problem of countercyclical investment were subdued and given haltingly. But the points developed do suggest the more important, general answers. These are:

Need for a leader within each industry. Though all types of firms are and should be concerned, the spearhead for industrial action is the large firm; there are fewer of them and therefore they are

easier to deal with. "They have more to gain through smoothing the business cycle than they have through capturing markets from their competitors."

Influence of a stable economic environment. Several representatives of business expressed the view that if the other fellow would invest against the cyclical trend first, he would follow suit. Other participants put the same idea differently, saying that if business could be sure the economy would not plunge into disastrous tailspins, countercyclical investment would become feasible.

WE MAY infer, therefore, that if this nation crashed into another 1929, business could not be induced by the profit motive (in a limited sense) to come to its own rescue. But business might handle a gentle slide, as in 1949, easily enough.

One of the economists, at least, made the suggestion that perhaps we are already in a new economic environment in which another 1929 is unthinkable. He added that the time may be ripe for businessmen to take a long look at how, in this new environment, they might contribute to stability (and perhaps even profit over the long run) by timing investment countercyclically.

Exploration of the profit-and-loss aspects of countercyclical in-

vestment. On the whole, businessmen have not yet really looked at the possibility of making or saving money by private countercyclical investment. Various short-run problems have absorbed their interest instead, such as the rigidity of wages and other costs, or the unfairness of cutthroat competition, or where to find a deep shelter until the depression blows over. Countercyclical investment might turn out to be quite profitable to the firm that makes a fresh study of the problem.

Diversity of methods. There are no one-shot solutions or sure-fire policies for countercyclical investment. If it is possible for American business to do something about increasing investment substantially during a depression, not only will the method vary from industry to industry, but it will depend on the balance among those industries at the time. Many new tricks will have to be thought up, and perhaps new economic inventions will have to be brought out of hiding.

Type of Government aid. Although the conference aimed at exploring the possibilities of side-tracking future WPA's, extra public buildings and the like, a significant number of participants believed that Government did have an important role to play. The report does explore some possible areas for Government aid, as did

the earlier study by Fortune.

By a countercyclical variation of depreciation allowed for tax purposes, by discretionary taxation of capital expenditure in boom expansion, by extension of the privilege of writing back or carrying forward losses to allow firms to approach more nearly an average profit basis for tax purposes—by these and other means—the Federal Government might be able to stimulate new investment in bad times. Whether businessmen would be happy under such regulations is open to question, though reports seem to indicate that some of these schemes were favorably received.

Need for more study. The 1951 National Bureau conference, it was agreed, was only a beginning—a test boring. The concept of countercyclical investment by business to promote stability is relatively new, very complex, and requires intensive study.

This report by the National Bureau closes on a mildly optimistic note. Granted that moderate stability exists in our economic system, there is little doubt that business does have the power to contribute toward even greater stability. Not only must American business develop techniques for combating depression, but it must develop the will to utilize the knowledge and resources at its command. ■

Economics in Action • *July 1954*

(Cont'd from p. 2)

business declines in our history that has not been followed by general price reductions.

This price stability in a period of business decline gives a good idea of what could happen if we got involved in even a minor war. As it is, many economists are already worrying about inflation in 1955:

Defense spending will probably be stepped up for fiscal 1954-55, even if Congress does not go along with all the military's requests—and in case of war in Indochina, any revision will be in the direction of more, not less, spending. The Defense Department still has about \$12 billion of unused funds that it could use right now without waiting for Congress. A sudden buying spurt by the Government could set off a wave of new orders by industry, particularly in basic metals such as steel.

Inventories were still above last year's levels in April, but indications are that May was the first month this year when inventories were lower than for the like month in 1953. Manufacturers have been using more steel, tin plate, etc., than has been produced for quite some time now and will probably start expanding their inventories again by early fall. But if the Government steps up orders, industry's buying will come sooner and will be more sudden.

Actually, economists feel confident that industry can meet an expanded defense program and still satisfy industrial and consumer demand, particularly right now when so many factories are still not working at full capacity. What they fear is a "scarcity psychology" that could lead to hoarding, and that would drive up prices to artificially high levels.

The dire consequences of even a small U.S. business dip for the economies of Western Europe, predicted by most economists, have apparently failed to materialize. In 1949, when our industrial production and imports declined 10%, Europe's economy went into a nosedive that forced many countries to devalue their currencies in order to boost their dollar earnings. In 1953-54, under similar conditions, Europe's economies appear healthier than ever:

Industrial production climbed to new highs in England and France and is at near-record highs in most other European countries.

Gold and dollar reserves of the Free World continue to rise despite our reduction of imports. The sterling area's (i.e. the British Commonwealth and other countries whose economies are geared to the British pound) rose by \$135 million in April—the largest monthly rise in more than two years, and the trend will probably continue.

The Department of Better Mousetraps: a new paint that can reduce heat by as much as 45 degrees on a sunny day...a pen or pencil carbon paper that produces copy that "cannot be smudged"...fruit-flavored corn puffs, colored red, orange and yellow...a practice ball for golfers with an attached parachute intended to cut down the ball's flight...rear-view sunglasses for bicyclists and other sportsmen...an electronic thermometer that can take a patient's temperature in 5-7 seconds...and, finally, an electronic piano that should go a long way to encourage junior's creative efforts without driving the rest of the family berserk. The instrument is fitted with earphones which enable the player to listen to the music while the piano's sound is shut off.